

UNITED STATES SENATOR • IOWA

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Senate Passes Tax Relief for U.S. Service Men and Women

WASHINGTON — Sen. Chuck Grassley today applauded unanimous Senate approval of legislation he co-authored to ensure fair tax treatment for men and women serving in the U.S. military and foreign service.

“With the one-year anniversary of the Sept. 11 terrorist attacks just behind us, and the prospect of war with Iraq, there’s no better time to act,” Grassley said. “The attacks on the United States a year ago and the reality of the challenge we face in defeating terrorism around the world have led to a renewed appreciation for the U.S. military. The sad fact is that right now these men and women don’t get a fair shake under the federal tax code.”

The *Armed Services Tax Fairness Act of 2002*, sponsored by Grassley, as ranking member of the Senate Committee on Finance, and Sen. Max Baucus of Montana, who chairs the Senate tax-writing committee, remedies specific tax problems for personnel in the uniformed services and foreign service, including the following.

In 1997, Congress changed the tax code to exclude gains from the sale of a person’s home from the capital gains tax, below certain thresholds. To qualify, an individual needs to live in the home for at least two of the five years before the sale. Grassley said this works fine for most people, but it’s not realistic for a lot of people serving in the military who are frequently transferred. The legislation passed today would establish a special rule for determining the gain that can be excluded with the sale of these homes.

Right now, if a member of the armed services dies on active duty, the federal government pays the surviving spouse a death benefit of \$6,000. Grassley said that only half of this benefit is now excluded from taxable income. The tax bill passed today would exclude the entire \$6,000 payment.

Many Army national guard and reservists travel for weekend drills and spend their own money for travel and lodging. As a practical matter, these expenses are generally non-deductible for one of two reasons: either the reservist is part of the 75 percent of the population that doesn’t itemize, or the expenses don’t exceed two percent of the reservist’s adjusted gross income. The bill passed today establishes an above-the-line deduction for unreimbursed travel expenses so reservists aren’t put in a position of having to subsidize their own training. Grassley said that Iowa has 799 guard and reservists on active duty.

Under current law, workers can exclude from their taxable income up to \$5,000 of employer-provided child-care expenses. A separate provision of the federal tax code excludes from income benefits provided to members of the uniformed services, but it's unclear whether child-care benefits were intended to be included in that provision. The military provides extensive child-care benefits. The tax bill co-authored by Grassley would clarify that child-care benefits provided to military personnel would be excluded from income.

“This bill pays respect to the men and women making sacrifices and, in some cases, risking their lives to protect and defend freedom,” Grassley said. “Congress should give final approval to this bill before the session ends this fall.” The House unanimously approved a similar tax relief package in July.